



Saskatchewan  
Finance

---

# **Annual Report 1999**

---

## **Public Employees Disability Income Fund**

---

---

**TABLE OF CONTENTS**

|  |    |
|--|----|
| Letters of Transmittal.....                  | 2  |
| Introduction.....                            | 4  |
| Operation of the Plan.....                   | 4  |
| Management's Report .....                    | 6  |
| Financial Statements                         |    |
| Auditor's Report .....                       | 8  |
| Statement of Financial Position .....        | 9  |
| Statement of Operations and Net Assets ..... | 10 |
| Statement of Cash Flows.....                 | 11 |
| Notes to the Financial Statements.....       | 12 |



Saskatchewan  
Finance

---

Her Honour, The Honourable Dr. Lynda M. Haverstock  
Lieutenant Governor of the Province of Saskatchewan  
Government House  
4607 Dewdney Avenue  
Regina, Saskatchewan  
S4P 3V7

Dear Madam:

**Letter of Transmittal**

I have the honour to transmit herewith the ninth Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 1999.

I have the honour to be, Madam,

Your obedient servant,

A handwritten signature in black ink, appearing to read "Eric Cline".

Eric Cline  
Minister of Finance



Saskatchewan  
Public Employees  
Benefits Agency

The Honourable Eric Cline  
Minister of Finance  
Regina, Saskatchewan

Sir:

**Letter of Transmittal**

On behalf of the Public Employees Benefits Agency, I have the honour to transmit herewith the ninth Annual Report of the Public Employees Disability Income Fund for the year ending December 31, 1999.

Respectively submitted,

A handwritten signature in black ink, appearing to read "Brian Smith".

Brian Smith  
Executive Director

---

## INTRODUCTION

The Public Employees Disability Income Plan was established in 1978.

The Plan provides long-term disability benefits to employees of Executive Government, several Crown Corporations and various Agencies, Boards and Commissions as approved by the Lieutenant Governor in Council.

As at December 31, 1999 there were approximately 12,772 insured employees representing the following participating employer groups:

Agricultural Credit Corporation of Saskatchewan  
Battlefords District Health Board - Battlefords  
Regional Care Centre  
Board of Arbitration under *The Surface Rights Acquisition and Compensation Act* (The)  
Board of the Saskatchewan Centre of the Arts  
Carlton Trail Regional College  
Children's Advocate  
Crown Investments Corporation of Saskatchewan  
East Central District Health Board  
Farm Land Security Board  
Greenhead District Health Board  
Information and Privacy Commissioner  
Legislative Assembly (Members of the)  
Legislative Assembly Office (Employees of the)  
Legislative Library (Employees of the)  
Liberal Caucus Office  
Liquor and Gaming Authority  
Lloydminster District Health Board  
Meewasin Valley Authority  
Milk Control Board  
Moose Mountain District Health Board  
NDP Caucus Office  
New Careers Corporation  
North Central District Health Board  
North-East District Health Board  
Northwest District Health Board  
Office of the Information and Privacy Commissioner  
Office of the Leader of the Opposition  
Office of the Legislative Counsel and Law Clerk (Employees of the)  
Office of the Ombudsman  
Office of the Provincial Auditor  
Pipestone District Health Board  
Power Greenhouses Inc.  
Prince Albert District Health Board  
Public Service of Saskatchewan as defined by

*The Public Service Act*, excluding employees covered by the Saskatchewan Government Employees' Union  
Saskatchewan Arts Board  
Saskatchewan Assessment Management Agency  
Saskatchewan Cancer Foundation  
Saskatchewan Communications Network Corporation  
Saskatchewan Crop Insurance Corporation  
Saskatchewan Health Information Network  
Saskatchewan Human Rights Commission  
Saskatchewan Institute of Applied Science and Technology  
Saskatchewan Municipal Board  
Saskatchewan Party Caucus  
Saskatchewan Power Corporation  
Saskatchewan Property Management Corporation  
Saskatchewan Telecommunications Holding Corporation  
SaskEnergy Incorporated  
South Central District Health Board - Souris Valley Regional Care Centre  
South East District Health Board  
St. Louis Alcoholism Rehabilitation Centre  
Tourism Authority  
TransGas Limited  
Wakamow Valley Authority  
Wanuskewin Heritage Park Corporation  
Wascana Centre Authority  
Western Development Museums  
Workers' Compensation Board (The)

## OPERATION OF THE PLAN

### Administration

The Public Employees Disability Income Plan is self-insured and is managed by the Public Employees Benefits Agency, Saskatchewan Finance.

The Disability Income Plan Advisory Council has been established under Section 16 of *The Government Organization Act* and is comprised of an equal number of management and union representatives appointed by Minister's Order.

The Co-operators Life Insurance Company is on contract under an Administrative Services Only agreement to provide claims adjudication, benefit payment and rehabilitation services to the Plan.

---

Effective October 1, 1997, the Occupational Rehabilitation Group of Canada (ORGOC) became the active provider of rehabilitation services.

#### **Administration Costs**

Public Employees Benefits Agency Revolving Fund:

The costs of administering the Public Employees Disability Income Fund are a charge on an paid out of that Fund. These expenditures are paid to the Public Employees Benefits Agency Revolving Fund.

#### **Investment Management Services:**

The Minister of Finance is authorized to invest any part of the monies standing to the credit of the Disability Income Fund in any securities authorized for investment pursuant to the "Investment Policy Guidelines".

The Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to the Co-operators Investment Counselling Limited.

#### **Funding**

Prior to June 1, 1994, funding for the Plan was at a rate of .96% of an employee's basic monthly salary cost shared equally. Effective June 1, 1994, funding for the plan is at a rate of 1.02% of an employee's basic monthly salary cost-shared as follows:

.48% salary - employee share  
.48% salary - employer share  
.06% salary - employer share to fund pension contributions

Several employers pay the full 1.02% premium on behalf of their employees.

#### **Benefits**

After serving a Qualifying Period of 119 calendar days, the gross monthly disability benefit is equal to 75% of pre-disability basic monthly salary.

Benefits are initially payable while an employee is occupationally disabled (unable to work at

his/her own occupation). This period covers 24 months from the date of disability.

Thereafter, the employee must be totally disabled from any reasonable occupation for benefits to continue.

Benefits will continue under the total disability provision until the earlier of age 65 or retirement.

#### **Premiums/Claims Experience**

|                                   | <u>Dec. 31, 1999</u> | <u>Dec. 31, 1998</u> |
|-----------------------------------|----------------------|----------------------|
| Premiums                          | \$5,727,678          | \$5,378,370          |
| Claims                            | \$5,723,649          | \$4,828,997          |
| # Active Claims<br>at December 31 | 241                  | 218                  |

---

## MANAGEMENT'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

As members of management of the Public Employees Disability Income Fund, we are responsible for the preparation and presentation of the following financial statements in accordance with the generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The significant accounting policies adopted in the preparation of the financial statements are fully and fairly disclosed in the financial statements.

The report of a valuation actuary on the provision for claims payable of the Fund, made in accordance with accepted actuarial practices and using assumptions adopted by management, has been used in the preparation of the financial statements.

We believe the Public Employees Disability Income Fund has a system of internal control adequate to provide reasonable assurance that the accounts are faithfully and properly kept to permit the preparation of accurate financial statements in accordance with generally accepted accounting principles.

The Disability Income Plan Advisory Council was established in 1978 and is comprised of an equal number of management and labour representatives. It is responsible for reviewing policies and procedures governing the operations of the Disability Income Plan, address appeals where benefits have been declined by the insurance carrier and oversee management of the investment fund.

We enclose the financial statements of the Public Employees Disability Income Fund for the year ended December 31, 1999 and the Provincial Auditor's report on these financial statements.



Brian Smith  
Executive Director  
Public Employees Benefits Agency



Perry Bahr  
Director, Benefit Programs  
Public Employees Benefits Agency

Regina, Saskatchewan  
February 18, 2000

---

# **PUBLIC EMPLOYEES DISABILITY INCOME FUND**

## **FINANCIAL STATEMENTS**

**YEAR ENDED DECEMBER 31, 1999**

---

## AUDITOR'S REPORT

To the Members of the Legislative Assembly of Saskatchewan

I have audited the statement of financial position of the Public Employees Disability Income Fund as at December 31, 1999 and the statements of operations and net assets and cash flows for the year then ended. The Fund's management is responsible for preparing these financial statements for Treasury Board's approval. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1999 and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting principles.



Regina, Saskatchewan  
February 18, 2000

Wayne Strelloff, CA  
Provincial Auditor

---

**PUBLIC EMPLOYEES DISABILITY INCOME FUND  
STATEMENT OF FINANCIAL POSITION**

**STATEMENT 1**

**AS AT DECEMBER 31**

|  | <u>1999</u>         | <u>1998</u>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| Current Assets:  |                     |                     |
| Cash   | \$ 2,141            | \$ 884              |
| Accounts receivable (Note 8)                                 | 442,723             | 534,309             |
| Due from Co-operators Life Insurance Company                 | 47,344,415          | 45,088,165          |
| Receivable from Co-operators Life Insurance Company (Note 8) | <u>143,643</u>      | <u>289,217</u>      |
| Total assets   | <u>\$47,932,922</u> | <u>\$45,912,575</u> |
| <b>LIABILITIES AND NET ASSETS</b>                            |                     |                     |
| Current Liabilities:   |                     |                     |
| Accounts payable (Note 8)                                    | \$ 432,212          | \$ 127,202          |
| Provision for claims payable (Note 3)                        | 34,438,000          | 30,240,000          |
| NET ASSETS (Statement 2)                                     | <u>13,062,710</u>   | <u>15,545,373</u>   |
| TOTAL LIABILITIES AND NET ASSETS                             | <u>\$47,932,922</u> | <u>\$45,912,575</u> |

(See accompanying notes to the financial statements)

**PUBLIC EMPLOYEES DISABILITY INCOME FUND  
STATEMENT OF OPERATIONS AND NET ASSETS**

**STATEMENT 2**

**YEAR ENDED DECEMBER 31**

|  | <b>1999</b>                |                            | <b>1998</b>                |
|--|----------------------------|----------------------------|----------------------------|
|  | Budget<br>(Note 9)         | Actual                     | Actual                     |
| <b>REVENUE</b>                                     |                            |                            |                            |
| Premiums   | \$ 5,513,000               | \$ 5,727,678               | \$ 5,378,370               |
| Investment income                                  | <u>3,500,000</u>           | <u>2,583,976</u>           | <u>2,267,953</u>           |
|  | <u>9,013,000</u>           | <u>8,311,654</u>           | <u>7,646,323</u>           |
| <b>EXPENSE</b>                                     |                            |                            |                            |
| Change in provision for claims payable<br>(Note 3) | -                          | 4,198,000                  | 1,339,000                  |
| Disability benefits                                | 4,800,000                  | 5,723,649                  | 4,828,997                  |
| Administration fees                                | 190,000                    | 196,718                    | 172,432                    |
| Revolving Fund Administration (Note 4(a))          | 701,238                    | 569,936                    | 576,585                    |
| Management fees (Note 4(b))                        | <u>106,000</u>             | <u>106,014</u>             | <u>105,214</u>             |
|  | <u>5,797,238</u>           | <u>10,794,317</u>          | <u>7,022,228</u>           |
| (Deficit) surplus for the year                     | 3,215,762                  | (2,482,663)                | 624,095                    |
| <b>NET ASSETS, BEGINNING OF YEAR</b>               | <b><u>15,545,373</u></b>   | <b><u>15,545,373</u></b>   | <b><u>14,921,278</u></b>   |
| <b>NET ASSETS, END OF YEAR - Statement 1</b>       | <b><u>\$18,761,135</u></b> | <b><u>\$13,062,710</u></b> | <b><u>\$15,545,373</u></b> |

(See accompanying notes to the financial statements)

**PUBLIC EMPLOYEES DISABILITY INCOME FUND  
STATEMENT OF CASH FLOWS**

**STATEMENT 3**

**YEAR ENDED DECEMBER 31**

|   | <b>1999</b>      | <b>1998</b>      |
|---|------------------|------------------|
| Cash flows from operating activities:   |                  |                  |
| (Deficit) surplus for the year  | \$(2,482,663)    | \$ 624,095       |
| Adjustments for:  |                  |                  |
| Investment income   | (2,583,976)      | (2,267,953)      |
| Change in non-cash working capital:   |                  |                  |
| Decrease (increase) in accounts receivable                                    | 91,586           | 91,008           |
| Increase in accounts payable  | 305,010          | 47,080           |
| Decrease (increase) in receivable from<br>Co-operators Life Insurance Company | <u>145,574</u>   | <u>47,170</u>    |
|   | (4,524,469)      | (1,458,600)      |
| Change in accumulated provision for claims<br>payable                         | <u>4,198,000</u> | <u>1,339,000</u> |
| Cash flows from operating activities:   | <u>(326,469)</u> | <u>(119,600)</u> |
| Cash flows from investing activities:   |                  |                  |
| Sale of segregated fund units   | <u>327,726</u>   | <u>118,175</u>   |
| Net increase (decrease) in cash   | 1,257            | (1,425)          |
| CASH, BEGINNING OF YEAR   | <u>884</u>       | <u>2,309</u>     |
| CASH, END OF YEAR   | <u>\$ 2,141</u>  | <u>\$ 884</u>    |

(See accompanying notes to the financial statements)

---

## **PUBLIC EMPLOYEES DISABILITY INCOME FUND NOTES TO THE FINANCIAL STATEMENTS**

**DECEMBER 31, 1999**

### **1. Description of Fund**

The Public Employees Disability Income Fund (PEDIF) is a special purpose fund used to account for the premiums, claims, investment and certain administrative transactions of the Disability Income Plan (Plan). The Plan continues under subsection 64(2) of *The Financial Administration Act, 1993*.

This Plan is managed by the Public Employees Benefits Agency (PEBA) and provides a level of income protection during periods of occupational or total disability. Plan participants are employees of certain members of the public service of the Province of Saskatchewan and other Saskatchewan Crown agencies, whose participation in the Plan has been approved by the Lieutenant Governor in Council. The Plan is administered under the terms of an agreement with The Co-operators Life Insurance Company.

### **2. Significant Accounting Policies**

These financial statements are prepared in accordance with generally accepted accounting principles. The following accounting policies are considered significant.

#### **a) Accrual Basis**

The financial statements are prepared on the accrual basis of accounting.

#### **b) Benefit Expense**

Benefit expense is recognized commencing in the year the claim is approved.

#### **c) Due from Co-operators Life Insurance Company (Co-operators)**

According to the agreement between PEBA and Co-operators, Co-operators has established a segregated fund for the investment of PEDIF monies. The balance in this segregated fund is a debt due by Co-operators to PEDIF and is represented by the investments held in the segregated fund.

The segregated fund is valued at market and any increase/decrease in the value of the segregated fund is accounted for in the statement of operations and net assets as investment income.

Fair value of the segregated fund approximates its market value.

#### **d) Provision for Claims Payable**

The provision for claims payable represents the present value of future payments arising from claims made prior to year end. This provision includes an amount for claims incurred but not reported. The present value is determined pursuant to an actuarial valuation. Any resulting change in this liability is recognized as a revenue or expense item in that year's operations.

#### **e) Cash and Cash Equivalents**

Cash consists of balances with the bank.

### **3. Actuarial Valuation**

An actuarial valuation was performed by Aon Consulting Inc. as at December 31, 1999 and by William M. Mercer Limited as at December 31, 1998 to value the liability for the future cost of claim payments to disabled members which includes a provision for claims incurred but not reported. The actuarial valuation established this liability to be \$34,438,000 at the valuation date (1998 - \$30,240,000). The valuation is based on the following assumptions: 1) the allowance for claim termination is based on the 1987 Group Long Term Disabilities valuation tables published by the Society of Actuaries adjusted for experience; 2) the interest rate assumed is 6.25% (1998 - 7%); 3) a 3% consumer price indexing of benefits before offset each year; 4) the inflation rate assumed is 2% for the first three years and 3% thereafter (1998 - 4%).

The amount of benefits payable under the Disability Income Plan may be increased on October 1 each year. The increase will be the same percentage, subject to a maximum of 3% per annum, as the percentage increase in the Consumer Price Index for the year ending on the immediately preceding July 1.

If the valuation assumed no cost of living allowance indexing of benefits each year, the liability at December 31, 1999 would be \$29,207,000 (1998 - \$25,320,000).

The liability for future claims is based on a number of assumptions about future events including: recovery and mortality rates, interest rate and expected benefits from other sources. The actual experience may vary significantly from the assumptions used.

The following illustrates the effect of changes in the interest rate, cost of living adjustment and recovery rates.

- a 1% change in interest rate equals a 6.5% change in the liability including the cost of living adjustment
- a change in the cost of living adjustment of 1% equals a 6.7% change in the liability
- a 10% change in recovery rates equals a 5.4% change in the liability

The liability is long term in nature. The Fund has no intention of settling its obligation in the near term. Therefore it is not practical for the Fund to determine the fair value of its obligation.

### **4. Administration Expenses**

#### **a) Public Employees Benefits Agency Revolving Fund**

The costs of administering the Public Employees Disability Income Fund are a charge on and paid out of that Fund. These expenditures are paid to the Public Employees Benefits Agency Revolving Fund.

#### **b) Investment Management Services**

The Minister of Finance is authorized to invest any part of the monies standing to the credit of the Disability Income Fund in any securities authorized for investment pursuant to the "Investment Policy Guidelines".

The Co-operators Investment Counselling Limited invests the monies of the Fund under a contract to provide services. The Fund pays management fees to the Co-operators Investment Counselling Limited.

---

## **5. Legal**

The Government of Saskatchewan is a party to a number of lawsuits relating to disability benefits for amounts totalling \$725,358. The ultimate outcome of these lawsuits is not yet determinable. Benefit payments arising from the resolution of these lawsuits will be accounted for as an expenditure of the year in which the settlement occurs.

## **6. Investment Performance**

The Fund's investments are represented by the amounts due from Co-operators Life Insurance Company (see note 2). Following is a summary of the Fund's investment performance:

|               | <u>1999</u> | <u>Four year<br/>annualized<br/>return</u> |
|---------------|-------------|--|
| Fund (a)      | 5.6%        | 11.3%                                      |
| Benchmark (b) | 7.9%        | 12.2%                                      |

- (a) The annual returns are before deducting investment expenses.
- (b) The benchmark return is the Fund's target rate of return for its segregated fund. The benchmark return is calculated using actual returns and the Fund's planned investment portfolio for its segregated fund.

## **7. Related Party Transactions**

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Fund by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan collectively referred to as "related parties".

Due to the nature of the Fund, substantially all premiums are received from related parties.

At year-end, the following amounts were due to/from related parties as a result of the transactions referred to above:

|                     | <u>1999</u> | <u>1998</u> |
|---------------------|-------------|-------------|
| Accounts receivable | \$379,250   | \$454,450   |
| Accounts payable    | \$58,524    | \$75,589    |

Other transactions with related parties and amounts due to/from them are described separately in the financial statements and notes thereto.

## **8. Accounts Receivables/Accounts Payables/ Receivable from Co-operators Life Insurance Company**

These financial instruments are non-interest bearing and are due or payable within the next year. Due to this short-term maturity, the fair value of these financial instruments approximates carrying value. The Fund is exposed to minimal credit risk from the potential non-payment of accounts receivables.

---

**9. Budget**

The Fund submitted the budget to Treasury Board.

**10. Uncertainty due to the Year 2000 Issue**

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.